

Message Text

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DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-04

RSC-01 PRS-01 SPC-03 SS-20 USIA-15 EB-11 COME-00

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6995

INFO AMEMBASSY BONN

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AMEMBASSY COPENHAGEN

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(C O R R E C T E D C O P Y SECOND PARA 2 CHANGED TO READ PARA 2A)

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GENEVA FOR STERNER

E.O. 11652: XGDS-1

TAGS: PFOR, ENRG, UK, XF

SUBJECT: BRITISH VIEWS ON OIL AND THE MIDDLE EAST

SUMMARY: HIGH FOREIGN OFFICE OFFICIAL WITH GOOD ACCESS TO TOP OF HMG (PARSONS) CONFIRMED TO US BRITISH NEGOTIATIONS FOR SPECIFIC LONG-TERM AMOUNT OF SAUDI OIL ALONG LINES OF FRENCH DEAL, THOUGH HE WOULD NOT REVEAL QUANTITIES INVOLVED. HE OUTLINED BRITISH POLICY AS CAREFUL TO EXPLORE ALL AVENUES FOR SOLUTION OF BRITAIN'S OIL PROBLEM WHETHER THEY BE MULTILATERAL OR BILATERAL, SINCE FUTURE OIL-BUYING PATTERNS ARE UNCLEAR AND INTERESTS OF CONSUMERS DIFFER. HE DENIED THAT ARMS SALES TO ARAB PRODUCERS ARE RELEVANT TO CURRENT OIL PROBLEM. UNDERDEVELOPED PRODUCERS SUCH AS THE SAUDIS WANT WESTERN DEVELOPMENT HELP FOR THEIR OIL -- NOT MORE MONEY. PARSONS ALSO COMMENTED IN PASSING ON IRAN'S DESIRE FOR BARTER ARRANGEMENTS, THE PROBABLE ABSENCE OF KUWAITI DESIRE FOR WESTERN DEVELOPMENT ASSISTANCE, JALLUD'S LIKELY DESIRE TO CONCENTRATE ON BILATERAL UK-LIBYAN PROBLEMS DURING FORTHCOMING VISIT HERE RATHER THAN ON OIL, AND THE ERRONEOUSNESS OF RECENT PRESS REPORTS ALLEGING HMG PROPOSALS TO GUARANTEE ARAB STERLING ACCOUNTS IN U.K. END SUMMARY.

1. ON JANUARY 9, IN A LAST DISCUSSION WITH PARSONS BEFORE HE RELINQUISHES ASST. UNDERSECRETARY POSITION AT FCO TO MICHAEL WEIR NEXT WEEK, WE PRESSED HIM ON HMG VIEWS AND INTENTIONS RE OIL. WE GOT A FAIRLY GOOD EXPOSITION OF BRITISH GOVERNMENT PHILOSOPHY IN CURRENT CRISIS, THOUGH PARSONS WAS CAGEY ON DETAILS OF NEGOTIATIONS WITH ME STATES.

2. FIRST, PARSONS CONFIRMED TO US THAT BRITISH ARE INVOLVED IN NEGOTIATIONS WITH SAUDIS ON LONG-TERM SUPPLY OF CRUDE OIL. HE SAID DEAL WAS AT SAUDI RATHER THAN BRITISH INITIATIVE. HE REFUSED TO BE PINNED DOWN ON MAGNITUDE OF PROPOSED DEAL. FROM VARIOUS INTIMATIONS IT SEEMS PROBABLE THAT 200,000 BBLs A DAY IS DEFINITE
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(REPRESENTING APPROXIMATELY 10 PER CENT BRITAIN'S CURRENT OIL CONSUMPTION) AND POSSIBILITY EXISTS OF CONSIDERABLY LARGER AMOUNT (AS WITH THE FRENCH). ONE PROBLEM, PARSONS POINTED OUT, WAS THE PRICE. BRITISH WOULD NOT, IN ANY CASE, WISH TO COMMIT THEMSELVES TO DIRECT SUPPLY DEALS WITH ANY SINGLE COUNTRY COVERING THE TOTALITY OF THEIR OIL IMPORT NEEDS. IT WOULD OBVIOUSLY BE BENEFICIAL TO GET AS MUCH OIL AS POSSIBLE FROM NON-

ARAB SOURCES.

2A. ON PRICE, PARSONS REFERRED TO VIGOROUS BRITISH REPRESENTATIONS IN CAPITALS OF EVERY OPEC COUNTRY PRIOR TO CURRENT OPEC MEETING. BRITISH ARE WAITING TO SEE WHAT OPEC MEETING WILL DECIDE.

3. PRESS STORIES OF ARMS FOR OIL ARE ERRONEOUS, PARSONS CONTINUED. THIS ALSO APPLIES TO THE FRENCH. IT IS POSSIBLE THAT FRENCH WILL PROVIDE SAUDI ARABIA ITEMS SUCH AS AMX TANKS, HE SAID IN REPLY TO OUR QUESTION, BUT THAT IS IRRELEVANT. FRENCH (AND BRITISH) HAVE MILITARY EQUIPMENT, AND SAUDIS HAVE LOTS OF MONEY. SALE OF EQUIPMENT IS NOT CONNECTED TO OIL. HE ADMITTED THAT PROVISION OF EQUIPMENT TO "CONFRONTATION STATE" SUCH AS EGYPT, PAID FOR BY SAUDI OIL, MAY ARISE AS ISSUE LATER ON, BUT SAID IT HAD NOT ARISEN IN BRITISH DISCUSSIONS SO FAR (OR IN FRENCH, AS FAR AS HE WAS AWARE). BRITISH WOULD HAVE DIFFICULTIES IF THAT ISSUE AROSE,
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DUE TO THEIR ARMS EMBARGO.

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4. MAIN POINT IS, PARSONS CONTINUED, THAT SAUDIS WANT INDUSTRIALIZATION WITH ASSISTANCE OF WEST IN RETURN FOR OIL. THEY DO NOT WANT MORE MONEY. THE SAUDIS AND OTHER ARABS HAVE FINALLY REALIZED IT IS IN THEIR OWN INTEREST TO DEAL WITH WESTERN GOVERNMENTS DIRECTLY ON DEVELOPMENT CONTRACTS. THEN THEY HAVE A SINGLE ADDRESS TO TURN TO IF THINGS GO WRONG, INSTEAD OF MANY COMPANIES. IT ALSO CUTS OUT EXPENSIVE CORRUPTION IN AWARD OF SUCH CONTRACTS. IN THIS CONNECTION, PARSONS SAID PREVIOUS LARGE CONTRACTS WON BY BRITISH IN SAUDI ARABIA MUST PRETTY WELL BE DISCOUNTED; PAYMENT FOR NEW OIL DEAL WOULD BE THROUGH NEW BRITISH COMMITMENTS.

5. PARSONS SAID IRANIANS ARE INTERESTED IN BARTER DEALS FOR THEIR OIL, BUT THIS IS SPECIAL CASE. BRITISH IN TEHRAN ARE WORKING ALONG THOSE LINES, AS WELL AS ON BROADER INDUSTRIAL PROJECTS. JAPANESE AND GERMANS DOING SAME (THOUGH HE WAS NOT SURE IF GERMANS ARE IN TEHRAN YET).

6. PARSONS INDICATED CONCLUSION OF BRITISH OIL DEAL WITH SAUDIS MAY COME VERY SOON. ON OTHER HAND, UNEXPECTED DELAYS ARE ENDEMIC TO SAUDI BUREAUCRACY.

7. HMG IS OPERATING ON PRINCIPLE THAT ALL AVENUES SHOULD BE PURSUED AT ONCE. BRITISH WILL OF COURSE ACCEPT USG INVITATION TO WASHINGTON CONFERENCE FEBRU-

ARY 11. BRITISH HAPPY TO SEE THAT COUNTRIES INVITED TO THAT MEETING ARE LEADING MEMBERS OF OECD, WHERE BRITISH THINK MUCH WORK CAN BE DONE. ON OTHER HAND, IF OPEC NATIONS WERE TO CALL FOR A MEETING WITH OIL CONSUMERS (A SORT OF MAMMOTH UNCTAD) IN NEAR FUTURE, BRITISH WOULD ACCEPT IMMEDIATELY. IN MEANWHILE NO COUNTRY CAN AFFORD TO PASS UP OPPORTUNITIES FOR DIRECT TALKS WITH ARAB PRODUCING COUNTRIES; THE STAKES ARE TOO HIGH. BRITISH HAVE LONG FELT, PARSONS SAID, THAT A CONSUMER CARTEL, TO FACE OPEC, MIGHT BE QUITE EFFECTIVE ONCE IT WAS OPERATING. PROBLEM IS IT WOULD TAKE TIME TO PUT TOGETHER AND IN MEANTIME OPEC STATES WOULD "PICK US OFF ONE BY ONE."

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8. EXPANDING ON THAT THEME, PARSONS SAID WE ARE ALL SAILING IN UNCHARTED WATERS. PATTERN OF FUTURE OIL BUYING IS UNCLEAR, THOUGH PRESENT INDICATIONS ARE OIL PRODUCERS WILL PREFER GOVERNMENT-TO-GOVERNMENT DEALS. CONSUMERS HAVE DIFFERENT INTERESTS. US, FOR EXAMPLE, CAN GET BY (WITH SOME BELT-TIGHTENING) IN ABSENCE OF ARAB OIL IMPORTS, WHEREAS EUROPEANS CANNOT.

9. IN RESPONSE TO OTHER QUESTIONS, PARSONS MADE FOLLOWING REMARKS. KUWAITIS, UNLIKE SAUDIS, ARE NOT LIKELY TO SEEK WESTERN HELP FOR INDUSTRIALIZATION SINCE KUWAIT IS ALREADY SO HIGHLY DEVELOPED. AS REGARDS VISIT OF LIBYA'S JALLUD IN A FEW WEEKS (LONDON 344, NOTAL) DISCUSSIONS ARE LESS LIKELY TO CONCENTRATE ON OIL, SINCE BRITAIN IS ALREADY OBTAINING SO MUCH OIL FROM LIBYA. RATHER, JALLUD IS LIKELY TO SEEK SETTLEMENT, ON LIBYA'S TERMS, OF VARIOUS BILATERAL PROBLEMS, INCLUDING EXPROPRIATION OF B.P. AND NATIONALIZATION OF SHELL, ETC. LIBYANS HAVE NEVER RAISED QUESTION OF MORE ARMS FROM BRITAIN, AS PRESS HAS SPECULATED, PARSONS ADDED.

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FM AMEMBASSY LONDON

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INFO AMEMBASSY BONN

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10. PARSONS ALSO CONFIRMED THAT NEWSPAPER SPECULATION

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ALLEGING BRITISH PROPOSALS TO GUARANTEE ARAB DEPOSITS
IN UK ARE ERRONEOUS (KUWAIT 39, LONDON 353, NOTAL).

11. COMMENT: OLD ARAB HAND PARSONS IS NO TECHNICAL
EXPERT ON OIL, BUT HE HAS BEEN BROUGHT INTO HIGHEST
LEVEL DISCUSSIONS OF SUCH MATTERS IN RECENT MONTHS,

AND CAN BE ASSUMED TO REFLECT THE GENERAL PHILOSOPHY OF THOSE AT HIGHEST LEVELS WHO ARE THEMSELVES NOT EXPERT IN OIL DETAILS BUT ARE MAKING THE DECISIONS FOR HMG. MOST SIGNIFICANT IN OUR CONVERSATION WAS PARSONS' UNBLUSHING ADMISSION THAT PRESENT SITUATION CALLS FOR OPPORTUNISTIC BRITISH READINESS TO "PLAY IN EVERY GAME GOING" (AS HE PUT IT) IN INTERNATIONAL OIL NEGOTIATIONS. SINCE BRITISH ARE LARGELY RESPONDING TO INITIATIVES OF ARAB AND OTHER OIL PRODUCERS, THEY ARE LESS WORRIED ABOUT THE CONSEQUENCES ON OTHER CONSUMING NATIONS OF THEIR OWN POSSIBLE SUCCESS (E.G. IN BILATERAL DEALS FOR OIL) THAN ABOUT THE PENALTIES OF MISSING OPPORTUNITIES BY DEFAULT.

12. ADDRESSEES PLEASE TREAT ABOVE AS NOFORN EXCEPT BRITISH.

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Message Attributes

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Draft Date: 10 JAN 1974
Decaption Date: 01 JAN 1960
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Disposition Action: RELEASED
Disposition Approved on Date:
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Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
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